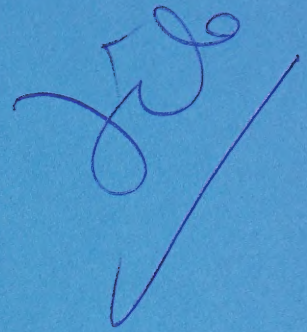


**INGERSOLL MACHINE
AND
TOOL COMPANY,
LIMITED**

1966

ANNUAL REPORT



Ingersoll Machine and Tool Company, Limited

Annual Report 1966

• DIRECTORS

H. A. WILSON	-	-	-	-	-	Ingersoll, Ontario
J. D. DUNCAN	-	-	-	-	-	Ingersoll, Ontario
F. G. LAWSON	-	-	-	-	-	Toronto, Ontario
J. D. LOVERIDGE	-	-	-	-	-	Ingersoll, Ontario
J. B. MITCHELL	-	-	-	-	-	Ingersoll, Ontario
K. C. SWANCE	-	-	-	-	-	Ingersoll, Ontario
E. L. WILSON	-	-	-	-	-	Ingersoll, Ontario

• OFFICERS

President	-	-	-	-	-	H. A. WILSON
Managing Director	-	-	-	-	-	J. D. LOVERIDGE
Secretary-Treasurer	-	-	-	-	-	J. D. DUNCAN

• Transfer Agent and Registrar

THE CANADA TRUST COMPANY	-	Toronto, Ontario
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• AUDITORS

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants
London, Ontario

Ingersoll Machine and Tool Company, Limited

Directors' Report to the Shareholders

We are pleased to report that in the year ended December 31st, 1966, we reached the highest level in both sales and profit attained in many years. We submit the year's results in the following report accompanied by the consolidated balance sheet, statement of earnings, statement of earnings retained and used, and statement of source and use of funds of the company and its subsidiary, Morrow Screw & Nut Company, Limited.

Operations

The consolidated sales of the company and its subsidiary amounted to \$9,459,700, an increase of \$516,400 over the previous year. Sales of the parent company totalled \$3,695,000 and sales of the subsidiary amounted to \$5,764,700.

The consolidated net income before provision for depreciation and income taxes amounted to \$1,022,600 compared with \$684,500 in 1965. After provision for depreciation and income taxes, the net income was \$591,200 compared with \$344,600 in 1965. After deducting the minority shareholders' portion of the profit of the subsidiary company (\$26,600 in 1966 and \$44,400 in 1965), the net profit transferred to consolidated retained earnings account was \$564,600 compared with \$300,200 in 1965.

After provision of \$4.00 per share upon the outstanding preferred shares, the earnings per share of common stock were \$3.41 in 1966 compared with \$1.80 in 1965.

Four quarterly dividends of \$1.00 per share were paid upon the preferred shares. Four quarterly dividends of 12½¢ per share plus a participating dividend of 25¢ per share were paid upon the Class "A" common shares. Three dividends totalling 75¢ per share were paid upon the Class "B" common shares.

During 1966, an additional 4,496 common shares of the subsidiary company were acquired from minority shareholders. During January 1967, a further 2,372 were acquired. The parent company at the time of writing owns 29,512 shares of the 30,000 shares outstanding. Thus the amount of \$255,455 shown as minority interest on the balance sheet has been further reduced to \$43,600.

Consolidated earnings retained and used in the company increased by a net amount of \$660,400 and at December 31st, 1966, the consolidated earnings retained amounted to \$3,427,800 and the capital surplus amounted to \$240,200, a total of \$3,668,000.

Plant and Equipment

During 1966, additions to plant and equipment amounted to \$934,600 of which \$149,500 represented purchases by the subsidiary and \$785,100 represented purchases by the parent company. Of this latter figure, \$499,600 was financed by an interest-free advance from the Government of Canada of which 50% is to be repaid over a five-year period ending in 1971. The other 50% is contributed by the Government and is not repayable. Only that portion representing a cost to the company has been reflected in the attached balance sheet.

Financial Position

Current assets at December 31st, 1966, amounted to \$3,617,600 and current liabilities amounted to \$1,716,400 leaving consolidated working capital of \$1,901,200, an increase for the year of \$36,600.

The shareholders' equity in the company as at December 31st, 1966, amounted to \$3,962,764 represented by capital, capital surplus and consolidated earnings retained and used in the business. This is equivalent to \$3,609 per 4% preferred share outstanding. After deducting the preferred stock at par value, the combined Class "A" and Class "B" common shares have a book value of \$23.48 compared with \$19.46 at the end of the previous year.

Outlook

The Canada-U.S. Automotive Pact is still a matter of major concern to your company, particularly since it is scheduled for review both by Ottawa and Washington at the end of 1967. The probability is that no major changes will be made although there is perhaps a 50-50 chance that automotive replacement parts which were excluded in the original Pact will be included in the revised agreement. Your company has still by no means recouped the volume of automotive sales which it lost through the introduction of

Ingersoll Machine and Tool Company, Limited

this Pact, for reasons which were described in my letter last year. However, one contract has been obtained from one of the large automobile manufacturers for the supply of a machined truck component for both Canadian and U.S. production. In order to obtain this one contract, it was necessary for us to be competitive with U.S. prices, and a very substantial investment in capital equipment had to be made in order to achieve this price level. To enable us to break into the U.S. market, it was decided that both the parent company and its subsidiary should establish offices and sales representatives in Detroit, thus establishing closer contact with the automotive companies. This was carried out in 1966 and your directors intend to seek further contracts of the foregoing nature during the next 12 months.

The contract received from the Canadian Commercial Corporation for United States defence supplies mentioned in my last letter is now in full production and is contributing substantially to our sales volume and profit. The present contract will be completed at the end of August, but your directors believe that the equipment installed will enable the company to be sufficiently competitive to obtain a further contract though at reduced prices.

In the middle of 1966, a contract was obtained from Department of Defence Production for the manufacture of shells for the Canadian Navy. This contract covered the reconditioning of a large number of specialized machine tools and the production of the shell body. The first phase was completed late in 1966 and delivery of the shells has now commenced.

Trailer axle sales showed a slight decrease from the level achieved in 1965 due to a very considerable reduction in the number of new trailers built. It is rumoured that trailers may be included in the revised U.S.-Canada Automotive Pact and your directors have already made representations against this proposal to the authorities in Ottawa since the removal of the 22½% tariff would inevitably have great repercussions upon Canadian domestic sales.

The efforts made to obtain business of a non-automotive type have recently resulted in an order for the supply of high-pressure valve components. The initial order covering a 2-year period is expected to result in annual sales of

some \$250,000. The same desire to lessen our dependence upon the automotive industry resulted in a decision to enter into the manufacture of certain items extensively used in the railroad industry in Canada for which there is presently no Canadian manufacturer and which are imported from the United States. Production of these items is planned to commence in the late summer of this year, but it is not expected that they will contribute significantly to sales or profits in 1967.

It is anticipated that the parent company will have sales of not less than six million dollars in 1967, being an increase in excess of 50% over 1966. Profits should follow a similar trend.

Our subsidiary company, Morrow Screw & Nut Company Limited, which likewise has made considerable strides in 1966 both in increasing its sales and profitability, expects further to progress in 1967 with anticipated sales of six million dollars and a profit at least equal to 1966. During 1965, this company purchased 25% of the outstanding shares of Williams Form Hardware & Rock Bolt (Canada) Limited, a subsidiary of Williams Form Engineering Corporation of Grand Rapids, Michigan. This newly formed company, selling material for large dam and bridge construction, proved to be the best customer of our subsidiary in 1966 and we expect its 1967 purchases to approximate \$500,000.

Major changes which have occurred in our products have necessitated the learning of new skills with consequent heavier-than-usual demands upon our staff. Your directors are greatly appreciative of the efforts made by the members of the staff.

In conclusion, although our 1966 results were most encouraging, we look forward to substantially more satisfying results in 1967. However, it should be noted that all automotive companies have contracts expiring in the autumn of 1967, and this, together with the undoubted weakening trend now evident in our economy, could affect this forecast.

On behalf of the Board,

H. A. WILSON,
President.

RIDDELL, STEAD, GRAHAM & HUTCHISON
Chartered Accountants
Established 1869

519-432-6374

200 Queens Avenue
London, Ont.

AUDITORS' REPORT

To The Shareholders,
Ingersoll Machine and Tool Company, Limited.

We have examined the accompanying consolidated financial statements of Ingersoll Machine and Tool Company, Limited and its subsidiary, Morrow Screw & Nut Company, Limited, for the year ended December 31, 1966 comprising the consolidated balance sheet at that date and the consolidated statements of earnings, earnings retained and used in the business, capital surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the aforementioned statements present fairly the financial position of the companies as at December 31, 1966 and the results of their operations and the source and use of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

March 29, 1967.

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1966**

	<u>1966</u>	<u>1965</u>
SALES AND OTHER INCOME		
Sales of products	\$9,459,724	\$8,943,366
Profit on disposal of fixed assets	68,673	14,044
Income from investments	<u>3,603</u>	<u>4,067</u>
	<u>9,532,000</u>	<u>8,961,477</u>
COSTS AND EXPENSES		
Cost of products sold	7,386,490	7,166,171
Depreciation of plant and equipment	225,336	191,376
Selling and administrative expenses	1,081,595	1,078,693
Interest on borrowed funds	<u>41,347</u>	<u>32,152</u>
	<u>8,734,768</u>	<u>8,468,392</u>
EARNINGS BEFORE INCOME TAXES	797,232	493,085
INCOME TAXES (Note 6)	<u>206,000</u>	<u>148,500</u>
	591,232	344,585
PROVISION FOR MINORITY INTEREST	<u>26,603</u>	<u>44,380</u>
NET EARNINGS FOR THE YEAR	<u>\$ 564,629</u>	<u>\$ 300,205</u>

Ingersoll Machine and

AND ITS
MORROW SCREW &

CONSOLIDATED BALANCE S

ASSETS			
CURRENT ASSETS		<u>1966</u>	<u>1965</u>
Marketable securities, at cost (quoted market \$53,535)		\$ 62,250	\$ 62,250
Accounts receivable		1,499,332	1,267,090
Inventories valued at the lower of cost and net realizable value (Note 1)		2,008,365	2,205,614
Prepaid expenses		<u>47,644</u>	<u>64,485</u>
		<u>3,617,591</u>	<u>3,599,439</u>
INVESTMENTS			
Mortgage receivable		17,500	24,000
Shares of a Canadian company, at cost		7,000	7,000
Life insurance, cash surrender value		<u>56,929</u>	<u>45,450</u>
		<u>81,429</u>	<u>76,450</u>
SPECIAL REFUNDABLE TAX		<u>23,923</u>	<u>—</u>
FIXED ASSETS			
Plants and properties (Note 2)		<u>2,468,591</u>	<u>2,029,140</u>
		<u>\$6,191,534</u>	<u>\$5,705,029</u>

Tool Company, Limited

SUBSIDIARY
TOOL COMPANY, LIMITED

STATEMENT AS AT DECEMBER 31, 1966

	LIABILITIES	
CURRENT LIABILITIES	1966	1965
Bank indebtedness (secured)	\$ 599,206	\$ 593,288
Accounts, payable and accrued	890,409	995,002
Income and other taxes	164,854	134,556
Dividends payable	11,924	11,964
Current maturity on long-term debt (Note 3)	49,998	—
	<u>1,716,391</u>	<u>1,734,810</u>
LONG-TERM DEBT		
Advances repayable to the Government of Canada (Note 3)	<u>199,824</u>	<u>—</u>
MINORITY INTEREST		
Preferred shares	57,100	61,100
Common share equity	<u>255,455</u>	<u>606,776</u>
	<u>312,555</u>	<u>667,876</u>
	SHAREHOLDERS' EQUITY	
CAPITAL STOCK		
Authorized		
3,500 4% Cumulative redeemable sinking fund preferred shares of \$100 each (Note 4)		
100,000 Class "A" common shares without par value (Note 5)		
100,000 Class "B" common shares without par value		
Issued		
1,098 Preferred shares	109,800	109,800
82,040 Class "A" common shares	92,475	92,475
82,040 Class "B" common shares	92,475	92,475
CAPITAL SURPLUS ARISING FROM REDEMPTION OF PREFERRED SHARES	240,200	240,200
EARNINGS RETAINED AND USED IN THE BUSINESS	<u>3,427,814</u>	<u>2,767,393</u>
	<u>3,962,764</u>	<u>3,302,343</u>
	<u>\$6,191,534</u>	<u>\$5,705,029</u>

Approved on behalf of the Board,
H. A. WILSON, Director
J. D. DUNCAN, Director

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1966

1. Inventories consist of:

	<u>1966</u>	<u>1965</u>
Finished products	\$ 762,030	\$ 730,781
Work in process	551,825	589,447
Raw materials	694,510	885,386
	<u>\$2,008,365</u>	<u>\$2,205,614</u>

2. Plants and properties consist of:

	<u>Cost</u>	<u>Accumulated Depre- ciation</u>	<u>Net Book Value</u>	<u>1966</u>	<u>1965</u>
Land	\$ 56,706	\$ —	\$ 56,706	\$ 56,706	
Buildings	988,228	479,510	508,718	484,377	
Equipment	4,737,627	2,834,460	1,903,167	1,488,057	
	<u>\$5,782,561</u>	<u>\$3,313,970</u>	<u>\$2,468,591</u>	<u>\$2,029,140</u>	

3. During the year ended December 31, 1966 the company received the sum of \$499,644 from the Government of Canada under a capital assistance agreement for defence export which was used to procure certain fixed assets as specified in the agreement. Under the terms of the agreement 50% of the funds received were contributed by the Government and 50% are to be repaid without interest in annual instalments of \$49,998 on or before March 31, 1967 to 1970 inclusive and a final instalment of \$49,830 on or before March 31, 1971. The amount contributed by the Government has been reflected in the fixed asset accounts to reduce the total additions during the year from \$934,596 to \$687,774, being the actual cost to the company.
4. The preferred shares are redeemable at a maximum price of \$105 and they do not have voting rights unless the dividends thereon are eighteen months in arrears.
5. The class "A" common shares are entitled to receive fixed cumulative preferential cash dividends at the rate of 50¢ per annum and they do not have voting rights unless the dividends thereon are eighteen months in arrears.
6. As a result of the company's intention to claim for tax purposes capital cost allowances in excess of the depreciation recorded in the accounts, the provision for income taxes is approximately \$182,000 less than the provision that would otherwise have been charged against earnings. This difference may be applicable to future periods in the event amounts that can be claimed for tax purposes are less than the depreciation recorded in the accounts. The accumulated amount by which income taxes have been so reduced in this and prior years is approximately \$721,000.
7. The total remuneration received as a director, officer or employee by directors from the company and its subsidiary for the year ended December 31, 1966 was \$106,029.
8. On the basis of an actuarial valuation made during 1965 the unfunded pension liabilities as at December 31, 1966 were estimated to be \$700,000. It is planned to pay this amount in annual instalments over the next twenty-three years.

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY LIMITED

**CONSOLIDATED STATEMENT OF EARNINGS RETAINED
AND USED IN THE BUSINESS FOR THE
YEAR ENDED DECEMBER 31, 1966**

	<u>1966</u>	<u>1965</u>
BALANCE AT BEGINNING OF YEAR	\$2,767,393	\$2,443,638
Net earnings for the year	564,629	300,205
Transfer of capital surplus of subsidiary company	—	101,898
Excess of proceeds over cash surrender value of life insurance	—	23,530
Discount on redemption of preferred shares	1,302	13,400
Surplus resulting from acquisition of minority shares	221,943	7,230
	<u>3,555,267</u>	<u>2,889,901</u>
Capital surplus arising from redemption of preferred shares	—	48,100
Dividends declared		
Preferred shares	4,392	4,673
Class "A" common shares	61,531	41,020
Class "B" common shares	61,530	28,715
	<u>127,453</u>	<u>122,508</u>
BALANCE AT END OF YEAR	<u>\$3,427,814</u>	<u>\$2,767,393</u>

**CONSOLIDATED STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1966**

	<u>1966</u>	<u>1965</u>
BALANCE AT BEGINNING OF YEAR	\$ 240,200	\$ 293,998
Amount transferred from retained earnings	—	48,100
	240,200	342,098
Capital surplus of subsidiary company transferred to retained earnings	—	101,898
BALANCE AT END OF YEAR	<u>\$ 240,200</u>	<u>\$ 240,200</u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY LIMITED

**CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1966**

	<u>1966</u>	<u>1965</u>
SOURCE OF FUNDS		
From operations -		
Net earnings for the year	\$ 564,629	\$ 300,205
Non-cash charges for -		
Depreciation	225,336	191,376
Provision for minority interest, less cash dividends thereto of \$7,598 in 1966 and \$9,800 in 1965	<u>19,005</u>	<u>34,580</u>
	808,970	526,161
Proceeds from disposal of fixed assets	19,986	8,695
Proceeds of life insurance policy	—	50,000
Advances from the Government of Canada (Note 3)	<u>499,644</u>	<u>—</u>
	<u>1,328,600</u>	<u>584,856</u>
USE OF FUNDS		
Expenditures for fixed assets (Note 3)	934,596	371,656
Current maturity on long-term debt (Note 3)	49,998	—
Dividends declared	127,453	74,408
Redemption of preferred shares	2,698	37,700
Acquisition of shares of subsidiary	148,383	4,253
Sundry items	4,978	(748)
Special refundable tax	<u>23,923</u>	<u>—</u>
	<u>1,292,029</u>	<u>487,269</u>
INCREASE IN WORKING CAPITAL	36,571	97,587
WORKING CAPITAL AT BEGINNING OF YEAR	<u>1,864,629</u>	<u>1,767,042</u>
WORKING CAPITAL AT END OF YEAR	<u>\$1,901,200</u>	<u>\$1,864,629</u>

INGERSOLL MACHINE AND TOOL COMPANY, LIMITED
AND ITS SUBSIDIARY
MORROW SCREW & NUT COMPANY, LIMITED

FIVE YEAR COMPARISON

<u>Operating Results</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
Sales	\$9,459,724.	\$8,943,366.	\$8,468,969.	\$7,613,709.	\$6,474,927.
Operating Income	1,022,568.	684,461.	428,670.	366,328.	230,157.
Depreciation	225,336.	191,376.	174,932.	167,641.	170,250.
Income Taxes	206,000.	148,500.	74,949.	54,415.	7,942.
Provision for Minority Interest	26,603.	44,380.	26,643.	21,398.	24,984.
Net Earnings after Taxes	564,629.	300,205.	152,146.	122,874.	26,981.
Cash Flow - Funds derived from operations	828,956.	534,856.	337,949.	296,931.	203,632.
Net Earnings as a % of Sales	6. %	3.4%	1.8%	1.6%	.4%

Shareholders' Participation

Dividends Declared Preferred	\$ 4,392.	\$ 4,673.	\$ 6,316.	\$ 6,316.	\$ 6,316.
Class "A" Common	61,531.	41,020.	41,020.	41,020.	41,020.
Class "B" Common	61,530.	28,715.	20,310.	20,510.	20,510.
Earnings per Common Share	3.41	1.80	.89	.71	.13
Common Share Equity	3,852,964.	3,192,543.	2,922,586.	2,754,053.	2,650,958.
Equity per Common Share	23.48	19.46	17.81	16.78	16.16
Common Share Earnings as % of equity	14.5%	9.2%	5. %	4.2%	.8%

Balance Sheet Items

Working Capital	\$1,901,200.	\$1,864,629.	\$1,767,042.	\$1,919,373.	\$1,494,033.
Fixed Assets (net)	2,468,591.	2,029,140.	1,857,554.	1,698,599.	1,772,388.
Addition to Fixed Assets	684,774.	371,656.	344,282.	102,869.	92,239.

